

BOARD OF TRUSTEES
- OF THE -
FIRE FIGHTER'S PENSION AND RELIEF FUND
FOR THE CITY OF NEW ORLEANS
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July 16, 2012

The Honorable Mitchell J. Landrieu
Mayor, City of New Orleans
1300 Perdido Street
New Orleans, LA 70112

Dear Mayor Landrieu,

The Board of Trustees for the Fire Fighters Pension and Relief Fund for the City of New Orleans respectfully request your immediate attention to the continued underfunding of the Fire Fighters pension plan. In subsequent years, the City has underfunded the requested appropriation by \$5 million (2010), \$15 million (2011), and \$20 million (2012). Chief Administrative Officer Andrew Kopplin has informed us that the City intends to underfund Firefighter pensions for 2013. During this same period, the City has adequately funded all other City pension obligations.

This continued underfunding violates the mandate of LSA- R.S. 11:3375. Critically, it has prompted our fiduciary liability insurance carrier, HUB International, to amend our policy to exclude coverage for "Loss" in connection with a "Claim" or "Government-defended Claim" made against the "Insured(s)". This exclusion exposes the individual Trustees (Membership-elected and City-appointed) to personal liability should any party with standing challenge the City's chronic underfunding.

The Board of Trustees has been both sympathetic and patient in understanding the economic woes of the City while attempting to work out a viable solution to addressing the funding needs of the pension plan. If the City cannot identify an immediate plan of payment, it will leave the Board of Trustees no alternative but to fulfill their fiduciary responsibility by seeking judicial relief, including a writ of mandamus. This Board has done so in the past and has been granted such relief. (*Nicolay v City of New Orleans*, 546 So. 2d, 508, 509 (Louisiana App. Cir. 1989), writ denied, 551

So. 2d 1324 (1989); *Board of Trustees of Firemen's Pension & Relief Fund v City of New Orleans*, 217 So. 2d 766 (Louisiana App. Cir. 1969).

The Board of Trustees has worked with your Administration since its inception, attempting to find a funding solution to this matter. We had no success in meeting our funding needs for 2010 or 2011. In addition to several earlier meetings during 2011, Mr. Kopplin met with the Board during its July 2011 planning session and committed to funding for 2012. Mr. Kopplin repeated his commitment to the Board and the City Council during the 2011 budget hearings. Those commitments failed to materialize for 2012. Despite all of this, representatives of the Board continued to meet with Mr. Kopplin during 2011 and 2012 to work out a funding solution for the future. During our most recent meeting, Mr. Kopplin informed us that the City might commit 2013 funding to \$15.5 million, which is still \$16.7 million less than the amount needed. This will bring the total amount of Fire Fighter New System pension underfunding during your administration to \$54 million.

We are hopeful that your current position and proposed funding can be changed.

The Board of Trustees is committed to providing \$15 million in annual savings commitments.

The Board of Trustees has committed to the following prospective measures, which are within its current statutory and administrative authority in an effort to help resolve this issue. Savings between \$3-\$5 million could be generated from the following employee provided savings:

1. Beginning in 2012, the Board of Trustees has lowered the interest rate paid on DROP and PLOP accounts by 2% resulting in savings of over \$1.2 million annually.
2. Delaying the payment of interest until after members complete DROP provides savings over \$1.3 million per year.
3. We are prepared to adjust our methodology for paying COLA's to a performance driven method. Anticipated savings will exceed \$1.2 million annually.
4. Board has agreed to adjust member's contributions upward using a step approach until contributions reach 10% of payroll. We believe this will generate approximately \$1.5 million in savings when fully implemented.

Savings of \$10 million can be generated from Policy adjustments:

1. Proposed changes to a 30-year amortization method and 7-year smoothing will result in annual savings of \$10 million per year.

The unfunded liability could be reduced by a minimum of \$20 million through the donation of idle City property.

Receipt of City property currently out of commerce will reduce our unfunded liability by amounts at least equal to the value of the donated property.

The City should consider the Board of Trustees' approach to refinancing the Old System pension obligation bonds which will generate up to \$100 million.

We have offered to assist the City in refinancing the Old System pension obligation bonds. Our plan was put forth over two years ago. We continuously remind Mr. Kopplin of its viability. After two years of the Administration's failure to litigate and negotiate a settlement with Chase, a similar plan to refinance the Bonds is being contemplated by your Administration. Unfortunately, it does not accomplish its full potential. Simply by financing for 30 years versus 20 years the City can choose to obtain additional money (as much as \$100 million) or realize several million dollars per year in lower payments. Either solution would help solve the City's current budget shortfalls. We would be happy to have our investment professionals assist you in developing this more viable refinancing plan.

Savings generated through member sacrifice should go to reducing the unfunded liability.

The Board believes any changes to benefits or contributions provided by Plan members should go directly to reducing the unfunded liability of the pension plan. No savings should go to offsetting the City's statutory obligation to fund. The City has adequately funded all other City pension obligations and should do so for the Fire Fighters.

Immediate action is required.

We are at a critical juncture. Absent the immediate presentation of a viable plan of action, the Board will seek a mandamus on Thursday, July 19, 2012 to secure the actuarially required funding levels for 2012 and the future. As you are aware, we are now entering the 2013 budget process:

It is our hope and desire that we can resolve this matter without litigation.

Sincerely,



Richard J. Hampton, Jr.
CEO/Secretary-Treasurer
Acting on behalf of the
Board of Trustees as
directed by majority action.

Cc: Honorable Jacquelyn Brechtel Clarkson, Council President and Councilmember-at-Large
Honorable Stacy Head, Council Vice President and Councilmember-at-Large
Honorable Susan G. Guidry, District "A" Councilmember
Honorable Diana Bajoie, District "B" Councilmember
Honorable Kristin Gisleson Palmer, District "C" Councilmember
Honorable Cynthia Hedge-Morrell, District "D" Councilmember
Honorable Jon D. Johnson, District "E" Councilmember

Andrew Kopplin, Chief Administrative Officer